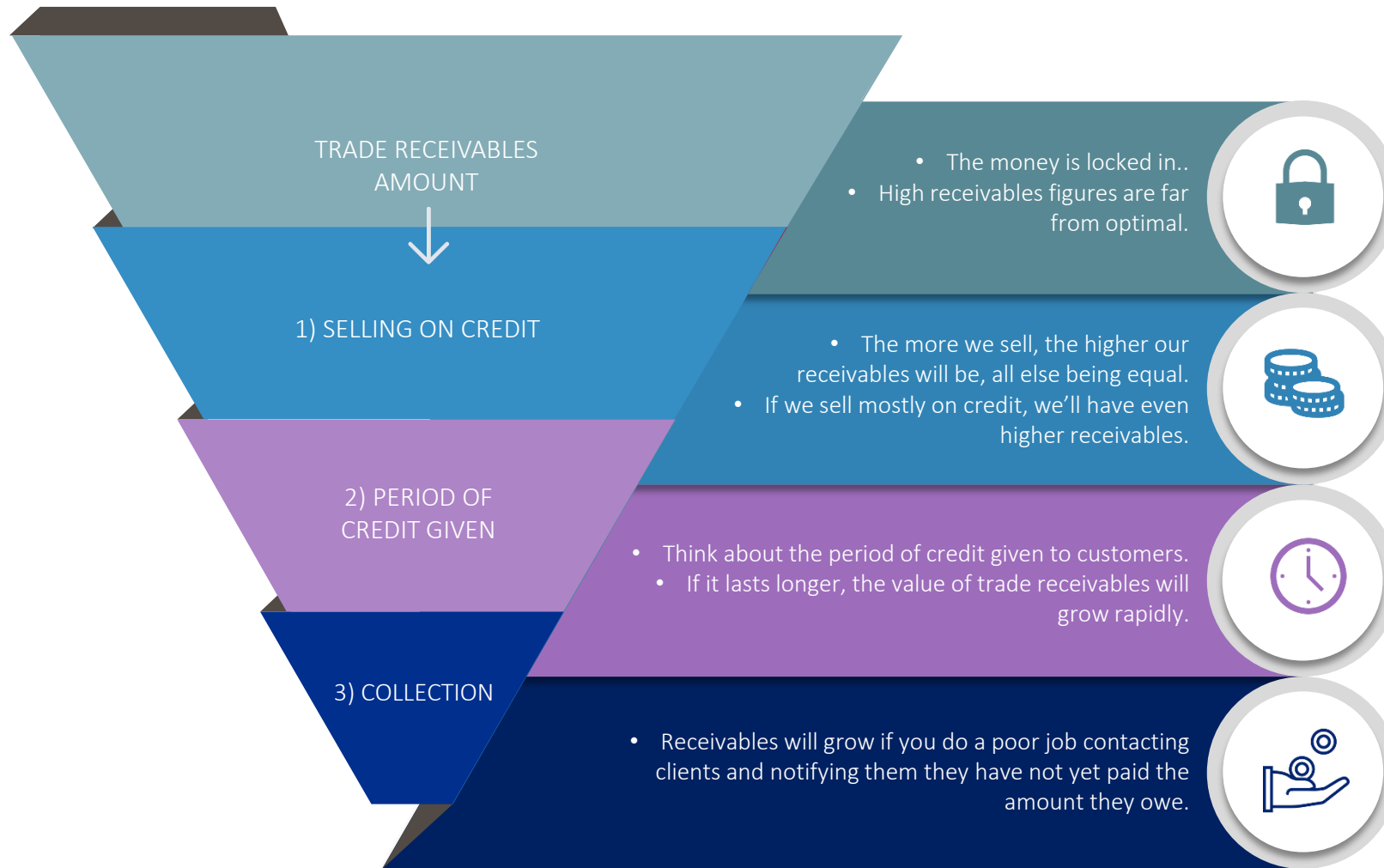


A low-angle photograph of several modern skyscrapers with glass facades. The buildings are reflected in each other, creating a complex geometric pattern. A large, semi-transparent blue triangle is overlaid on the upper half of the image, serving as a background for the title text.

The Finance Manager Course Notes

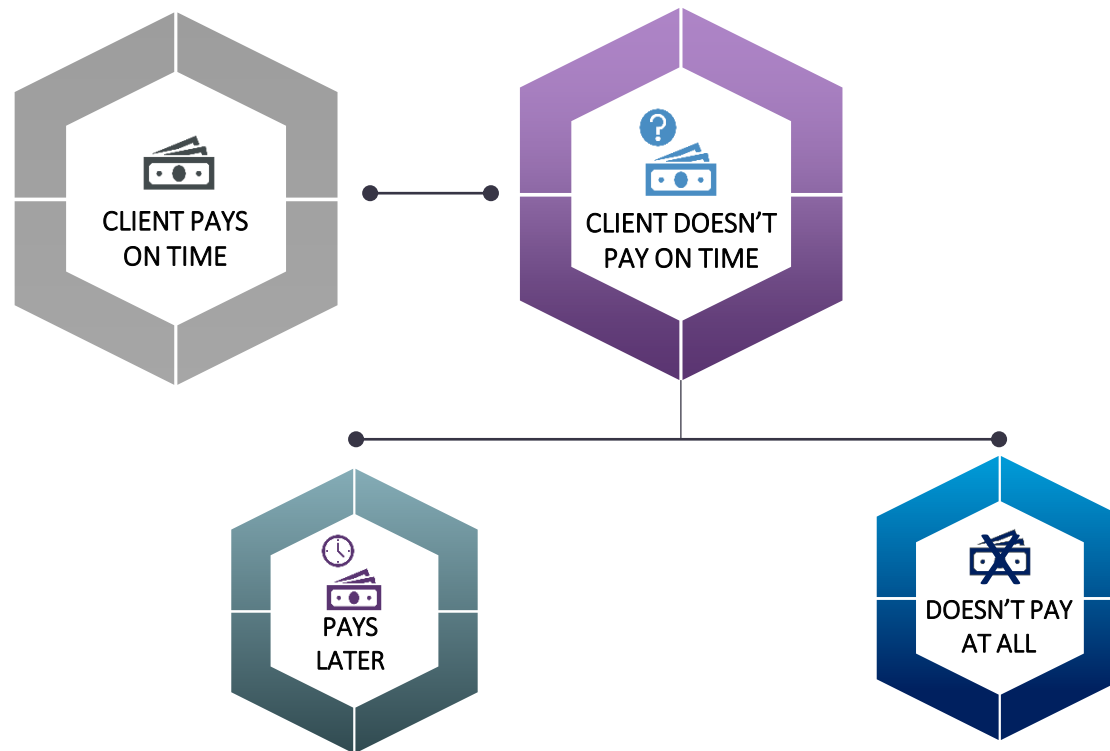
Trade receivables

Trade receivables are an asset that appears on our Balance Sheet when we sell goods on credit. They represent the claim we have towards a third party for goods we have provided or services we have rendered.



Late payments/Failure to pay

There are two possible options – the client pays at/before the deadline OR he pays later/doesn't pay at all.
The second one is more interesting.

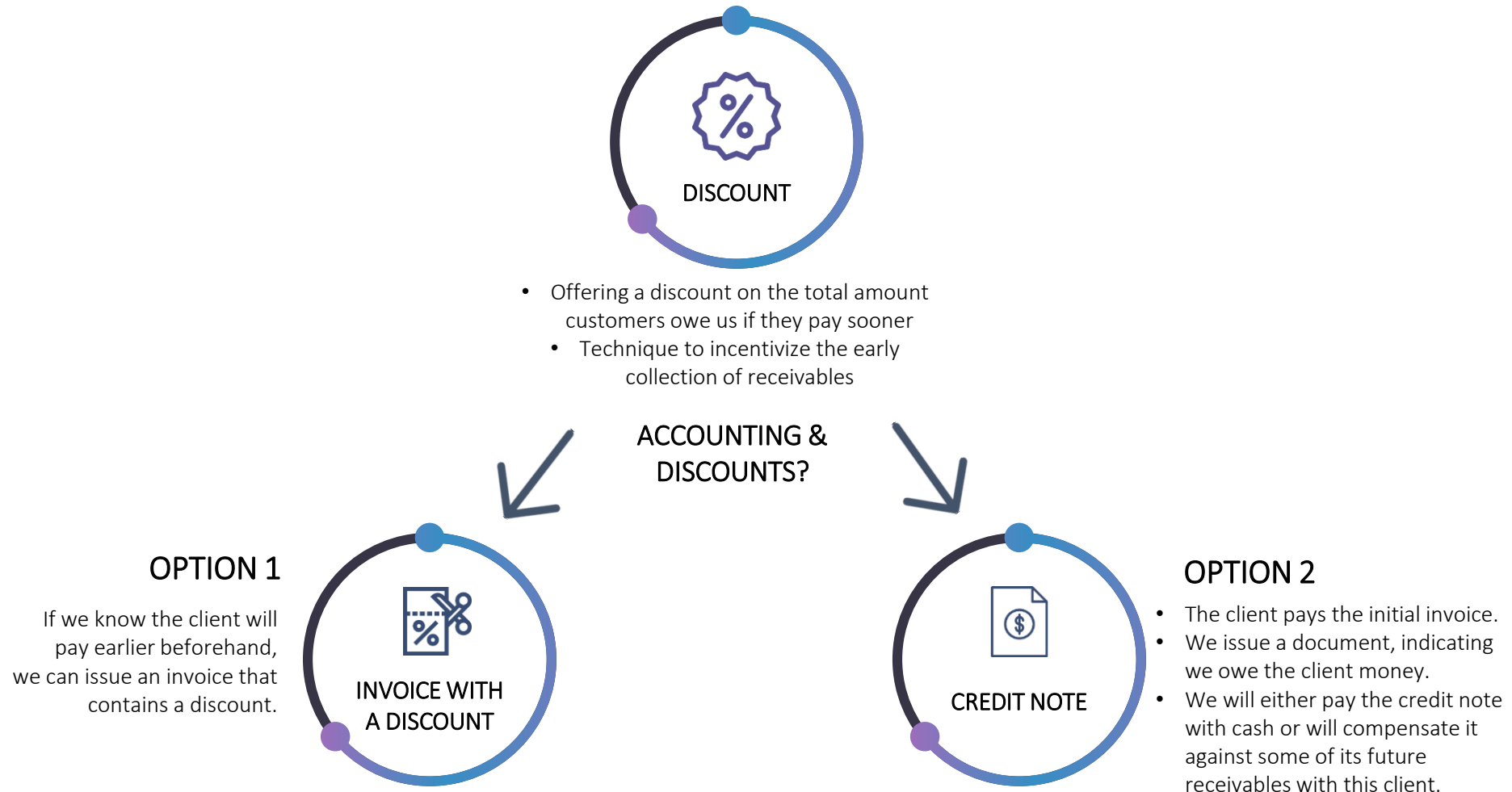


- If have every reason to believe the client will pay soon, we can keep the amount of receivables on our balance sheet.
- We accrue interest rates for the delay.
- Once the client pays us, we create a new invoice with the interests he owes us.

- We must use the help of a debt collector.
- The amount the client owes us becomes irrecoverable.
- So, we credit trade receivables with the amount of the irrecoverable debt.
- And, add a cost line for irrecoverable debt.
- Some companies make an allowance for such “bad receivables”.

Discounts

Discounts are one way we can incentivize clients to pay us earlier and decrease our receivables.



Inventory

Inventory is the portion of assets that are ready or will be ready to be sold. This is an important item for most businesses because it predetermines the speed with which clients can receive the goods they have ordered. Depending on the business you are in, your company can face three scenarios.

1) Wholesaler/retailer



- A merchandiser, a wholesaler, or a retailer company, such as Walmart, shouldn't have items different than finished goods in its inventory.

2) Manufacturer



- Manufacturers such as Apple have three components of inventory:
 - 1) Raw materials they have purchased but have not yet been elaborated
 - 2) Work-in-progress goods transformed in a certain way but have not been completed
 - 3) And Finished goods, which are final products ready to be sold to customers

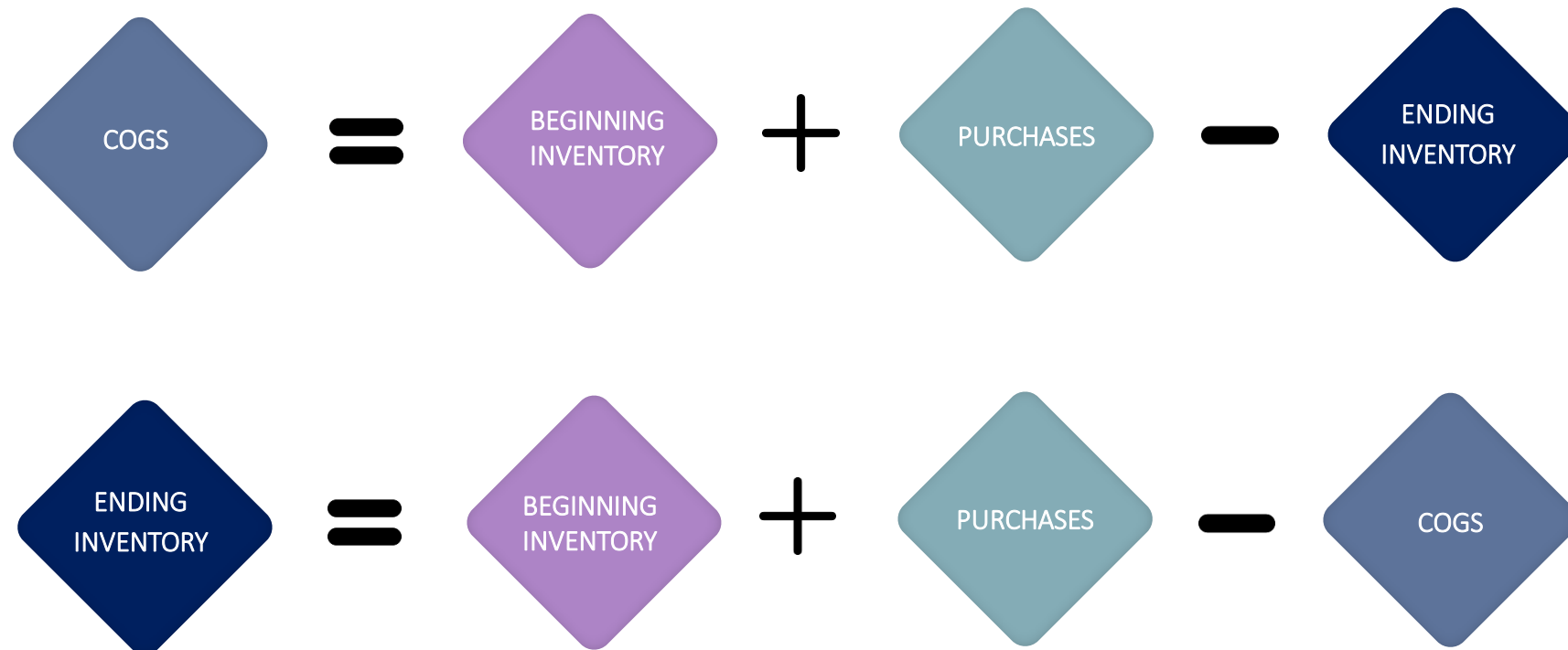
3) Service-based



- There are companies that do not keep any inventory.
- Service-based businesses, like Facebook and FedEx, cannot keep any inventory, and such an account wouldn't exist in their balance sheet.

Inventory equations

When we talk about inventory, we talk about goods either ready to be sold or are in the process of transformation and will be ready to be sold soon enough. This is why inventory is the balance sheet account, which is most closely related to cost of goods sold – the P&L line indicating the cost of the products our company sells. There are useful equations that help us visualize the relationship.



Product costs & Period costs

One can rightly ask: “Are all costs the firm sustains capitalized in inventory?”.

Some costs will be sort of capitalized and included in inventory when they are sustained. These are the product costs. Period costs are expensed directly without being capitalized in inventory. They are directly registered when they are incurred.



PRODUCT COSTS

- Expenses closely related to the creation of product (the transformation necessary for it to be considered a finished good)
- Examples:
 - ✓ Purchase costs less trade discounts and rebates
 - ✓ Costs of personnel directly involved in the production process
 - ✓ Overhead expenses tied to production (for example rent and electricity of the production plant)



PERIOD COSTS

- Period costs are expensed in the same period when they are incurred, as they cannot be related to a particular batch of products we are selling.
- Examples:
 - ✓ Expenses related to an abnormal waste of material
 - ✓ Storage costs
 - ✓ Admin costs
 - ✓ And selling expenses

Cost flow methods

According to the International Financial Reporting Standards, companies can choose between three cost flow methods: Specific identification, First-in, first-out and Weighted average cost. US GAAP allows a fourth cost flow method – Last-in, first-out.

Matching each unit sold with its actual price



- This is a method that is appropriate for businesses in which products are not interchangeable.
 - For example, if a firm sells paintings, specific identification is more appropriate than any other method.

Specific identification

01

Value between FIFO and LIFO

$$\text{weighted average cost} = \frac{\text{total cost of goods available for sale}}{\text{quantity available for sale}}$$

- Gives us unitary Cogs of the product we are about to sell.



02

First-in, first-out

Also known as FIFO



- The first item purchased is assumed to be the first item sold.

03

Last-in, first-out

Also known as LIFO

- The first products going out of our stock are the last that came in.
- The rationale behind this principle is that Cogs actually reflects the latest market price available.
- LIFO is not allowed under IFRS.

04



Fixed assets

Whenever we talk about tangible or intangible assets, we must make an important distinction – the expenditure on these assets can be capitalized or expensed. The logic is that costs related to the building up of the asset (its creation) should be capitalized and therefore depreciated or amortized in multiple years, given that the asset will be used for multiple years.

